REBUTTAL TESTIMONY OF

KEVIN R. KOCHEMS

ON BEHALF OF

DOMINION ENERGY OF SOUTH CAROLINA

DOCKET NO. 2020-125-E

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION.

A. My name is Kevin R. Kochems. My business address is 400 Otarre Parkway, Cayce, South Carolina. I am the Manager of Regulatory Accounting for Dominion Energy South Carolina, Inc. ("DESC" or the "Company")

Q. ARE YOU THE SAME KEVIN R. KOCHEMS WHO PREVIOUSLY SUBMITTED DIRECT TESTIMONY IN THIS PROCEEDING?

A. I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to certain matters raised in the pre-filed direct testimony of David E. Dismukes, witness for South Carolina Department of Consumer Affairs ("SCDCA"), regarding the Company's Customer Cost of Service Study ("CCOSS"). I also respond to certain matters regarding working capital raised by Mark E. Garrett, witness for the United States Department of Defense and all other Federal Executive Agencies ("DOD-FEA").

Q. ARE THERE ADJUSTMENTS PROPOSED BY INTERVENORS NOT ADDRESSED IN THE COMPANY'S REBUTTAL TESTIMONY?

A. Yes, there are.

Q. DOES THE COMPANY AGREE WITH ALL OF THOSE ADJUSTMENTS?

A. The absence of rebuttal testimony by any of the Company's witnesses addressing a particular adjustment or proposal is not necessarily an indication that the Company agrees with or accepts the adjustment or proposal. The Company believes that its proposed pro forma adjustments, updated as necessary through the discovery process, were reasonable and appropriate.

COST OF SERVICE STUDY

Q. HOW DO YOU RESPOND TO MR. DISMUKES' ASSERTION ON PAGE 41, LINES 4 - 14, OF HIS DIRECT TESTIMONY RECOMMENDING THAT THE COMMISSION ADOPT THE AVERAGE AND PEAK COST ALLOCATION METHOD TO ALLOCATE CLASS COSTS OF SERVICE ASSOCIATED WITH PRODUCTION PLANT FACILITIES IN LIEU OF THE COINCIDENT PEAK COST ALLOCATION METHOD EMPLOYED BY THE COMPANY?

A. I disagree with Mr. Dismukes' assertion. As an initial matter, a cornerstone of any utility's ratemaking process should be consistency. Conducting business otherwise would result in improper swings in rates between customer classes. The coincident peak cost allocation method has been consistently employed by the

Company, including its predecessor South Carolina Electric & Gas Company, with Commission approval for at least the last 38 years.

Q. ARE YOU SAYING THAT CHANGES SHOULD NEVER BE MADE TO THE RATEMAKING PROCESS?

A. Absolutely not. What I am saying is that significant changes as suggested by Mr. Dismukes should be measured and well vetted by all stakeholders. This includes all the Intervenors in this case, as well as others that may have intervened if they had known the Company was proposing such a change. Changes like those proposed by Mr. Dismukes could have significant and long-term impacts on our customers that need to be evaluated.

Q. CAN YOU EXPLAIN WHY THE COINCIDENT PEAK COST ALLOCATION METHOD IS THE MOST APPROPRIATE COST ALLOCATION METHODOLOGY TO ALLOCATE PRODUCTION PLANT FACILITIES COSTS IN THE COMPANY'S CCOSS?

A. Yes. The Company continues to believe that, while other methods may be appropriate in other locations and jurisdictions, use of the coincident peak cost allocation method is the most consistent with the actual load analysis and operation of the Company's electric system. The Company builds its Production and Transmission assets to support the system peak, regardless of when that peak occurs.

Q. CAN YOU EXPLAIN WHY THE AVERAGE AND PEAK COST ALLOCATION METHOD IS NOT WARRANTED FOR USE IN THE COMPANY'S CCOSS?

A. Yes. A method of cost allocation which allocates some portion of fixed production cost on energy usage, such as the average and peak method proposed by Mr. Dismukes, would not adequately account for the peak-driven demands historically experienced by the Company and therefore, would fail to reflect the actual load characteristics of the Company's system. The Company must provide adequate generating capacity to meet the demands of our customers when those customers decide to make demands. Production plant investment, therefore, is driven by peak demand, not average demand. Accordingly, the Company's coincident peak cost allocation method appropriately classifies all costs associated with production plant facilities as being demand-related and Mr. Dismukes recommendation of further classifying plant costs as energy-related or demand-related is not appropriate here.

Q. HOW DO YOU RESPOND TO MR. DISMUKES' ASSERTION ON PAGE 4, LINES 13 – 17, OF HIS DIRECT TESTIMONY THAT THE COINCIDENT PEAK COST ALLOCATION METHOD FOR COSTS ASSOCIATED WITH TRANSMISSION PLANT FACILITIES IS INCONSISTENT WITH THE METHODOLOGY USED BY THE FEDERAL ENERGY REGULATORY COMMISSION ("FERC")?

A. Mr. Dismukes' direct testimony does not provide a full recitation of FERC's position on the employment of alternative methodologies, like the one employed by the Company here. Indeed, FERC advises that while it may favor the 12-monthly coincident peak ("12-CP") cost allocation method for transmission costs, utilities are free to employ alternative allocation methodologies that reflect transmission planning, such as planning their systems to meet an annual peak, as done by the Company in this proceeding. *See Promoting Wholesale Competition Through Open Access Non-Discriminatory Transmission Services by Public Utilities; Recovery of Stranded Costs by Public Utilities and Transmitting Utilities*, 61 FR 21,540-01, 21,599, 1996 WL 239663 (May 10, 1996). Although the 12-CP cost allocation method may be appropriate elsewhere, it is not appropriate here because the Company's monthly peaks are neither equal in importance nor indicative of cost causation.

Q. WHAT IF THE COMMISSION DETERMINES THAT IT WOULD BE APPROPRIATE TO CONSIDER ANOTHER METHOD OF COST ALLOCATION?

A. As an initial matter, the Company respectfully asserts that it would be inappropriate to change the Company's long-applied cost of service methodology based on general arguments asserted in this proceeding without a full study and evaluation of appropriate cost of service methodologies. Moreover, for the reasons I have articulated above, the Company maintains that the coincident peak cost

allocation method it has used with Commission approval since at least the 1980s is most appropriate for DESC.

Nevertheless, the Company respectfully suggests that, if the Commission wishes to evaluate a change in cost allocation methodology, it should defer that evaluation until the Company's next general rate case. This will allow the Company and other stakeholders to fully study the cost allocation methodologies and recommend future action based on a full evaluation of available alternatives.

Q. HOW DO YOU RESPOND TO MR. DISMUKES' RECOMMENDATION ON PAGE 32, LINES 8 – 14, OF HIS DIRECT TESTIMONY THAT THE COMMISSION ADOPT UPDATED REVENUE DISTRIBUTIONS, LOWERING THE PROPOSED INCREASE IN BASE RATES FOR RESIDENTIAL AND SMALL COMMERCIAL CUSTOMERS AND SHIFTING THE DIFFERENCE TO THE OTHER CUSTOMER CLASSES?

A. I disagree with Mr. Dismukes' recommendation. The recommendation is grounded in his proposed alternative CCOSS, which employs the average and peak cost allocation method. For the reasons I discuss above, the coincident peak method is preferable for use by the Company as previously approved by this Commission.

I recommend that the Commission approve the Company's class revenue allocation, which is based on a CCOSS using a coincident peak cost allocation method for Production and Transmission Plant that more accurately captures cost of service across customer classes. The Company's proposed revenue distribution

takes a measured step toward bringing all customer classes closer to 100 percent of retail rate of return, which the Company previously has considered (and the Commission has accepted) as a guide for ensuring that a reasonable relationship exists between customer rates and the overall retail rate of return.

This concept is further supported by ORS Witness Mr. Michael Seaman-Huynh in his direct testimony at two locations. First, Mr. Seaman-Huynh recognizes on page 5, lines 7-10, of his direct testimony that "ORS concluded that, for the purposes of this Application, the methodology applied in constructing the Company's COSS is reasonable. The methodology provides a reasonable assessment and allocation of the Company's revenues, operating expenses and rate base items, which produces a rate of return by customer class." Second, on page 8, lines 7-11, Mr. Seaman-Huynh states, "ORS attempted to limit cross-subsidization of customer classes by employing a ±10% 'band of reasonableness' relative to the overall retail rate of return. The returns by class are reflected on Table 2. ORS recommends that any increase granted by the Commission be allocated in a manner such that the returns by class are as equitable as practicable."

WORKING CAPITAL

Q. WHAT IS YOUR RESPONSE TO THE PROPOSAL BY DOD-FEA WITNESS GARRETT THAT THE COMPANY SHOULD CONDUCT A LEAD-LAG STUDY TO DETERMINE WORKING CAPITAL NEEDS?

A. The Company respectfully disagrees with Mr. Garrett's recommendations for several reasons. First, contrary to his assertion, and as previously recognized by this Commission, a lead-lag study is "extremely complex and expensive" and the Company's "customers would ultimately pay the cost of them." Commission Order No. 96-15, pp. 25-26 (Jan. 9, 1996), In Re: South Carolina Elec. & Gas Co., Docket No. 95-1000-E. In fact, the Commission previously has stated as follows:

> The Commission finds that the formula method provides a reasonable approximation of a utility's cash working capital needs in this case, as well as others. Lead-lag studies are highly dependent on the assumptions used and selection methods employed. They are not necessarily more accurate or conclusive than the formula approach. The experience of this Commission and many others nationally has convinced us that a formula approach provides a reliable estimate of cash working capital needs.

Commission Order No. 96-98, pp. 9-10 (Feb. 12, 1996) (Order on Rehearing), In Re: South Carolina Elec. & Gas Co., Docket No. 95-1000-E. Notably, Duke Energy Carolinas, LLC ("DEC") and Duke Energy Progress, LLC ("DEP") in their recent general rate cases continued use of the 1/8 method and the Commission did not disapprove that practice in approving an adjustment for working capital. See Direct Testimony of Kim H. Smith for DEC, p. 52, l. 2 & fn. (b) (discussing 1/8 method); Order No. 2019-323, p. 29, ¶ 27 (May 21, 2019) (noting that "the Company and the ORS agree on the concept of and the method used to calculate the [working capital] adjustment"), In Re: Duke Energy Carolinas, LLC, Docket No. 2018-319-E; Direct Testimony of Laura Bateman for DEP, p. 27, ll.17-21 (noting proposed adjustment to working capital using 1/8 method); Order No. 2019-341 (May 21, 2019) (no

discussion of working capital), In re: Duke Energy Progress, LLC, Docket No. 2018-318-E. In short, the Commission has continued to approve use of the 1/8 method, and I note that ORS has not challenged the Company's use of this method here.

Second, based on its evaluation of the lead-lag study versus other methods, the Commission has never previously required the Company to prepare a lead-lag study and, in fact, has on multiple past occasions rejected the urgings of the Department of Consumer Affairs that it do so. *See, e.g.,* Order No. 96-15; Commission Order No. 84-142, In Re: South Carolina Elec & Gas Co., Docket No. 83-307-E (March 2, 1984) ("The consumer advocate recommended that the company be ordered to conduct a lead-lag study as part of the company's next rate application. The commission has considered this recommendation and has determined not to require a lead-lag study at this time.").

Third, the Commission also has previously determined that a "lead-lag study performed in [Docket No. 88-681-E] did not provide a better approximation of cash working capital needs than the one-eighth formula." Order No. 96-15, p. 25. This is consistent with rulings on this point by the FERC, which I discuss below.

Fourth, because a lead-lag study is, as this Commission also has recognized, a "time-consuming" process, Order No. 79-730, p. 23, In Re: South Carolina Elec & Gas Co., Docket Nos. 79-196-E & 79-127-G (Dec. 31, 1979), such a study cannot be performed at this point in the application process and the Company should not

be penalized for not preparing a lead-lag study when the Commission has on multiple prior occasions denied requests that it require the Company to perform a lead-lag study. If the Commission concludes that it should depart from its long-standing practice and that determining working capital needs through a lead-lag study would be appropriate, the Company respectfully requests that requirement be implemented only as part of the next general rate proceeding.

Q. DOES THE FERC ALLOW USE OF THE 1/8 WORKING CAPITAL RULE APPLIED BY THE COMPANY AND PREVIOUSLY APPROVED BY THIS COMMISSION?

A. Yes. Although it also allows the use of a fully-developed lead-lag study, FERC has ruled on multiple occasions that the 1/8 formula approach is appropriate for determining working capital needs. In fact, FERC has stated as follows:

> The formulary method has many benefits: first, it avoids imposing on utilities, and, ultimately, on their consumers, the cost of regularly performing a thorough and detailed lead-lag study. Second, the method has been found to produce reasonable results over the years without the expense of prolonged litigation. Third, it affords substantial advantages from the standpoints of administrative convenience and as an aid to the Commission in managing its large and increasing caseload.

In Re Carolina Power & Light Co., 6 FERC P 61,154, at P 61,295 (FERC 1979) (footnote omitted). In 1990, FERC terminated a proposed regulation promulgated in 1984 that would have set working capital at "zero dollars unless a fully developed and reliable lead-lag study demonstrated a significant difference between a utility's average dates for payment of certain operating expenses and receipt of revenues for

services to ratepayers." Calculation of Cash Working Capital Allowance for Elec. Utilities, 54 FERC P 61,193, at PP 61,579–80 (1991); see also Calculation of Cash Working Capital Allowance for Electric Utilities, 55 FR 42,584-01 (Oct. 22, 1990). Thus, the FERC continues to approve an electric utility's use of the 1/8 method just as DESC has applied here.

Q. WHAT ABOUT DOD-FEA WITNESS GARRETT'S SUGGESTION THAT THE COMPANY'S WORKING CAPITAL BE SET TO ZERO?

A. We respectfully assert that his recommendation should be rejected by the Commission. Witness Garrett does not evaluate the particulars of the Company's proposed adjustment and, instead, simply argues against the methodology employed by the Company even though that methodology was previously approved by the Commission despite prior arguments to require a lead-lag study. As I stated above, the Company should not be penalized by setting working capital to zero simply because it did not prepare a study that the Commission had never required it to perform and, in fact, had rejected requests that it order the Company to conduct a lead-lag study. The Company has calculated its working capital needs in accordance with the same formula that it has followed consistently and that the Commission has approved since at least the 1980s.

Q. DOES THE FERC REQUIRE SETTING WORKING CAPITAL TO ZERO IF THERE IS NO LEAD-LAG STUDY?

A. No. As I discuss above, the FERC in fact withdrew a proposed regulation that would have presumed an electric utility's working capital needs were zero absent a lead-lag study. Calculation of Cash Working Capital Allowance for Electric Utilities, 55 FR 42,584-01 (Oct. 22, 1990).

Q. WITNESS GARRETT CITES UTILITIES IN TABLE 3 OF HIS TESTIMONY THAT HAVE NEGATIVE OR ZERO CASH WORKING BALANCES. HOW DO THESE COMPARE TO DESC?

A. Witness Garrett lists 17 proceedings, 11 of which involve three utilities: Nevada Power Company, Oklahoma Gas & Electric Co., and the Public Service Company of Oklahoma. A review of public records demonstrates that implementation of Cash Working Capital for these utilities does not compare to DESC at all.

Both Nevada Power Company and Oklahoma Gas & Electric Co. include in their lead-lag study the impact of costs other than Operations and Maintenance Expenses ("O&M"), whereas O&M is the only component of DESC's Cash Working Capital. Expenses having a significant lead time, such as taxes, are key components of these other utilities' lead-lag studies, resulting in a negative Cash Working Capital balance. See Direct Testimony of Harold Walker III, Exh. Walker-Direct-2, pp. 1-30 (Lead Lag Study) (June 1, 2020), In re: Nevada Power Co. d/b/a NV Energy, Docket No. 20-06003; Cash Working Capital Schedule (Dec. 31, 2018), In re: Oklahoma Gas & Electric Co., No. PUD 201800140. Moreover,

although not included as part of Cash Working Capital for DESC, taxes are included in the determination of Working Capital in the form of Average Tax Accruals. See Exhibit No. ___ (KCC-6), p. 2. In fact, a review of the Working Capital computation set forth in Exhibit No. ___ (KCC-6) demonstrates that the Average Tax Accrual balance of ($128M), which is a reduction to rate base, exceeds the Working Cash balance of $111M, which is an increase to rate base, yielding a negative Cash Working Capital balance. Thus, when an apples-to-apples comparison is made between DESC and these other Companies, the Company does in fact have a negative Cash Working Capital balance.

The Public Service Company of Oklahoma differs from DESC in that its extremely short lag period results from "factoring" its accounts receivable. Order No. 581748 (Jan. 5, 2011) ("[T]he negative CWC is the result of [ ] minimizing the delay in collecting revenues from customers through the factoring of accounts receivable."), In Re: Public Service Co. of Oklahoma, Docket No. PUD 201000050. As noted in that Order, the process of selling receivables to a third party has a significant impact on the lead lag, resulting in a negative number, because the company is obtaining cash very soon after the expenses are incurred and the receivable is generated. DESC does not factor its accounts receivable and, thus, the working capital status of the Public Service Company of Oklahoma is not comparable to that of DESC.

In sum, Witness Garrett's proposal to eliminate the Company's proposed working capital adjustment should be rejected.

SUMMARY

Q. WHAT ARE YOU ASKING THIS COMMISSION TO DO?

A. I am respectfully requesting that this Commission accept the CCOSS methodology applied by the Company in this proceeding as it has done for at least the last 38 years and accept the working capital adjustment calculated by the Company using a methodology previously approved by the Commission and applied since at least the 1980s.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.